

DW 02-094

TIOGA RIVER WATER COMPANY, INC.

Petition for Increase in Permanent Rates

Order Approving Settlement Agreement and  
Granting Recovery of Rate Case Expenses

O R D E R    N O.    24,097

December 16, 2002

**APPEARANCES:** Stephen P. St. Cyr & Associates by Stephen P. St. Cyr on behalf of Tioga River Water Company, Inc.; and Marcia A. B. Thunberg, Esq. on behalf of the Staff of the New Hampshire Public Utilities Commission.

**I. BACKGROUND AND PROCEDURAL HISTORY**

Tioga River Water Company, Inc. (the Company) is a New Hampshire public Utility as defined in RSA 362:2 and 362:4, and operates two separate water divisions. Its Tioga Division (Tioga) located in Belmont, New Hampshire serves approximately 22 customers, while its Gilford Village Water District Division (GVWD) consists of 36 meters serving approximately 63 end-users in Gilford, New Hampshire.

On July 15, 2002, the Company filed with the Commission a request for increased rates for both Tioga and GVWD along with revised tariff pages and supporting documentation. The Company proposed an increase in Tioga's revenues of \$2,307 or 21.83% and an increase in GVWD's revenues of \$3,802 or 58.15%, both to be effective August 1, 2002.

On July 24, 2002, the Commission issued Order No. 24,015 suspending the proposed tariffs and scheduling a prehearing conference and technical session for August 23, 2002. The prehearing conference was held as scheduled on August 23, 2002. No requests for intervention were filed. During the technical session, the Company and the Commission Staff (Staff) agreed upon a procedural schedule that the Commission approved by Order No. 24,045 (August 28, 2002). The procedural schedule was later revised by a Secretarial Letter issued on October 8, 2002.

Staff conducted discovery and propounded data requests. On November 1, 2002, Staff submitted the direct testimony of Douglas W. Brogan, Jayson P. Laflamme and James L. Lenihan. On November 14, 2002, the Company and Staff commenced settlement discussions. These settlement discussions ultimately produced a Settlement Agreement (Agreement) which was signed by the Company and Staff on November 27, 2002, and filed with the Commission on December 2, 2002.

On December 3, 2002, the Commission heard testimony in support of the Agreement. At the request of the Company and Staff, the Commission deferred consideration of the rate case expenses pending review and recommendation by Staff. On December 4, 2002, the Company submitted supporting

documentation for rate case expenses amounting to \$10,566.31 for Staff's review. The Company proposed a recovery period for these expenses of 8 billing quarters. Staff reviewed the rate case expenses and, on December 12, 2002, Staff recommended that the Company be allowed recovery of \$9,185.81 in rate case expenses over a two-year period encompassing eight billing quarters. Staff calculated that the Company's 85 end-users would see a \$13.51 surcharge per quarter.

## **II. POSITION OF THE STAFF AND COMPANY**

Both the Staff and Company expressed their support for the proposed Settlement Agreement. The details of the Agreement are set forth below.

## **III. SUMMARY OF SETTLEMENT AGREEMENT**

### **A. Revenue Requirement**

The Company and Staff agreed upon annual revenue requirements for the Company's two systems, based upon a test year ending October 31, 2001, of \$10,496 for Tioga and \$10,516 for GVWD. The result is a 1.59% decrease in test year revenues for Tioga and a 60.85% increase in test year revenues for GVWD. In deriving the revenue requirements for each division, the Company and Staff agreed upon the following components in the respective calculations: a rate of return of 7.65%; rate base amounts of \$22,820 for Tioga and \$13,706 for GVWD; adjusted net

operating income amounts of \$1,916 for Tioga and \$2,929 for GVWD; and a tax factor of \$0 for each division. The Staff and Company agreed that no tax factor should be applied to the stipulated return on rate base since the Company's accumulated net operating loss carry-forward will offset net income for the foreseeable future.

### **B. Rate Design**

Tioga: The Company began installing meters for the customers served by this division under Docket No. 96-300 and is now in a position to implement a metered rate. The Company and Staff agreed that the rate should consist of a fixed quarterly charge of \$39.93 and a consumption rate of \$0.0525 per cubic foot of water consumed.

GVWD: The Company and Staff agreed upon a rate for this division consisting of a fixed quarterly charge of \$14.87 and a consumption rate of \$0.02133 per cubic foot of water consumed.

### **C. Effective Date**

The Company and Staff agreed that the stipulated revenue requirements should become effective as of the date of the Commission order approving the Agreement. The new rates shall be collected on a bills rendered basis. The Staff and Company requested a waiver of Puc 1203.05, which requires rate

changes be implemented on a service-rendered basis. Staff and the Company stated at hearing it would be less confusing to the customers to implement the rate on a bills-rendered basis, especially since GVWD is not metered.

#### **D. Tioga Pump Station Replacement**

The Agreement provides for replacement of the Tioga division pump station within two years from the date of the order approving the Agreement. The Company will collaborate with Staff on the replacement and the Company will provide Staff with progress reports every six months from the date of approval of the Agreement.

Similar to previous Company equipment upgrades, the Agreement allows the Company to seek Commission approval of a step adjustment in their permanent rates after the pump station is in service. Staff agrees to assign a depreciation life of not greater than 20 years to the pump station when the Company seeks to calculate the step adjustment.

#### **E. Lost Water Accounting**

The Company agrees to report metered production by well, and total metered consumption, on a quarterly basis by division for the next four quarters or until losses in each system fall below 20 percent.

**F. Other Administrative Issues**

The Agreement calls for the Company to perform a detailed inventory of plant assets. The Company agrees to establish and maintain a system of Continuing Property Records (CPR) and Work Order System in accordance with the Commission's Uniform System of Accounts. The Company agrees to complete these requirements no later than June 30, 2003.

Under the Agreement, the Company will also file, by December 31, 2002, outstanding Loan Agreements for Staff review.

The Company agrees to file a revised affiliate contract with Gilford Well Company for Commission review.

The Company agrees to file all outstanding Federal Income Tax returns with the Internal Revenue Service no later than July 15, 2003.

The Company agrees to provide separate Income Statements and separate plant statistics for its divisions in all future Annual Reports to the Commission beginning with the 2002 Annual Report.

**IV. COMMISSION ANALYSIS**

The Commission is authorized to fix rates after notice and hearing pursuant to RSA 378:7 and is obligated to investigate the justness and reasonableness of the proposed rate. *Eastman Sewer Company, Inc.*, 138 N.H. 221, 225 (1994).

To this end, we have considered the proposed Settlement Agreement as well as the supporting testimony provided at the hearing and we find the terms of the Agreement consistent with the public interest. The reasonable costs of the Company support the decrease proposed for the Tioga Division, and require the increase proposed for the GVWD Division. With respect to the large percentage increase in rates to GVWD customers, we note that the existing rates are among the lowest in the state, and will remain below average after implementation of the rate increase.

We will allow the Company to implement the new rates on a bills-rendered basis and grant the Company's request for waiver of Puc 1203.05. The Company notified customers in August that it was seeking a rate increase but it did not request temporary rates. The Company issues quarterly bills and the present billing cycle, which began in October, ends December 31, 2002. Staff stated at hearing that filing for temporary rates causes utilities to incur additional expenses; thus many small water companies forego requesting them. In this case, since Tioga did not request temporary rates, our approval of new rates on a bills-rendered basis allows the Company to avoid additional costs, and affords the Company a benefit akin to temporary rates

for a relatively short period of time at the end of the proceeding.

Rate cases offer an opportunity for Staff to thoroughly review the operation of a utility. In this docket, Staff identified areas of non-compliance which the Company will remedy according to the terms of the Agreement. We instruct the Company to promptly comply with the Commission's Uniform System of Accounts, identified in administrative rule Puc 607.07, and as specified in the Agreement. We acknowledge the Agreement allows the Company approximately six months to come into compliance, however, we note these rules went into effect March 25, 1997 and the Company should have come into compliance shortly thereafter.

With respect to the filing of affiliate agreements, the Agreement does not specify a deadline by which the Company should file the agreements. At the hearing, Staff testified it preferred to receive these agreements by the end of December. The Company did not voice any objection to this suggested deadline. Thus, we will require the Company to file all agreements identified in section 4.0, paragraph M of the Agreement, by December 31, 2002. This is the same date by which the Company agreed to submit all outstanding loan agreements according to section 4.0, paragraph L of the Agreement.



At hearing, Staff expressed much concern over the condition of the pump station at the Tioga division. The Agreement specifies the Company will provide progress reports every six months on its efforts to replace the pump station. The Company will submit progress reports on the following dates: June 13, 2003; December 13, 2003; June 13, 2004; and December 13, 2004. We understand, should the Company replace the pump station sooner than December 2004, that some of these reports may be unnecessary.

Other reports we expect to receive from the Company concern lost water reporting. The Agreement indicates these reports will be submitted quarterly for the next four quarters. We understand the Company's existing quarter ends December 31<sup>st</sup>. We will thus direct the Company to submit its lost water accounting for the October through December quarter by January 20, 2003. The Company should submit its lost water accounting for the January through March quarter by April 20, 2003. The Company should adhere to this pattern of reporting until the four quarterly reports are submitted, or until losses in each system fall below 20 percent, whichever occurs later.

Lastly, the Commission has reviewed Staff's recommendations as to recovery of rate case expenses. We agree with Staff that recovery of audit expenses as rate case expenses

is inappropriate. Response to audit requests is a continuing obligation of utilities under RSA 374:18 and is recognized in calculating the permanent rate in RSA 378:28. Allowing expenses associated with responding to audit requests as a surcharge for rate case expenses would in effect amount to double recovery of these expenses. With respect to charges for owner time, the Commission also agrees with Staff that \$120 attributable to the owner's time spent on the rate case should be excluded from rate case expenses based on the same double recovery reasons we expressed with audit expenses.

Based upon our review of the record and testimony at hearing, we conclude that the Settlement Agreement and the rates established therein are just and reasonable. We find the terms of the Agreement will benefit customers of Tioga River Water Company, Inc. and that the Agreement is in the public interest.

**Based upon the foregoing, it is hereby**

**ORDERED**, that the Settlement Agreement reached between Tioga River Water Company, Inc. and Staff is APPROVED; and it is

**FURTHER ORDERED**, that Tioga River Water Company, Inc.'s rate case expenses of \$9,185.81 are APPROVED; and it is

**FURTHER ORDERED,** that Tioga River Water Company, Inc. shall submit reports to the Commission as identified in the Settlement Agreement as specified above; and it is

**FURTHER ORDERED,** that Tioga River Water Company, Inc. shall submit a compliance tariff within ten days in conformance with this order.

By order of the Public Utilities Commission of New Hampshire this sixteenth day of December, 2002.

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Thomas B. Getz  
Chairman

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Susan S. Geiger  
Commissioner

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Nancy Brockway  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary